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PROJECT

IMPLEMENTING STRATEGIC CHANGE WITHIN THE DEFENSE FINANCE AND ACCOUNTING SERVICE

BY

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Abstract

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This is a study of strategy implementation rather than strategy formulation. This paper will describe factors leading to strategic changes within the Defense Finance and Accounting Service (DFAS) since its inception in 1991. It will discuss the context in which this implementation took place. The paper will compare the implementation to Tony Eccles' model for quickly implementing strategic change, as presented in his book, Succeeding with Change: Implementing Action-driven Strategies. The comparison provides a means of analysis which supports conclusions on the efficiency of the implementation and recommendations for improving the implementation of future strategic changes.

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Introduction

Purpose. This paper will analyze the implementation of strategic change by the Defense Finance and Accounting Service (DFAS) since its inception in 1991. The analysis will be based on a comparison of DFAS's implementation methodology to Tony Eccles' model for quickly implementing strategic change, as presented in his book, Succeeding with Change: Implementing Action-driven Strategies. This comparison is not meant to imply that DFAS was aware of Mr. Eccles' book or was consciously trying to use his model. The comparison is meant only as an after-the-fact means of analysis of how some of DFAS's actions paralleled elements of Eccles' model, and how other DFAS actions differed from the model. The comparison provides a means of analysis which supports conclusions and recommendations.

General Overview. This is a study of strategy implementation rather than strategy formulation. This paper will describe the context in which this implementation took place by presenting a brief history of finance and accounting operations within the Department of Defense (DOD). It will describe recent pressures to consolidate and reduce the costs of those operations, and DFAS's strategic plans. The paper will then discuss the implementation of those plans in comparison to Eccles' model. The paper will present conclusions on the efficiency of the implementation and will recommend ways to possibly improve the implementation of future strategic changes.

History of Finance and Accounting in DOD

Prior to 1990, the Army, Navy, Air Force, Marine Corps, and other DOD agencies each maintained their own separate and unique finance and accounting organizations. Despite uniform pay scales, each of the departments maintained its own automated systems to pay its active duty military, reservists, retirees, annuitants, cadets, and civilian employees. Each department maintained its own travel reimbursement system or systems, its own contract payment system or systems, and multiple accounting systems. Each department complied with the federal laws and appropriation statutes as interpreted by each departments' separate policy organizations. Each presented similar, but different, reports to DOD and Congress. In 1990, DFAS estimated that 58,000 employees were engaged in some aspect of finance and accounting for the DOD and its subordinate departments. These employees wrestled with 70,564 pages of regulations and operated 270 separate finance and accounting systems. The scope of these operations is illustrated by the following monthly statistics:

9,800,000 salary payments issued,

550,000 savings bonds issued,

340,000 transportation bills paid,

2,000,000 invoices paid,

730,000 travel vouchers paid,

8,500 garnishments processed,

2,500 military retiree death cases processed.[1]

Factors leading to change. Over the last decade, several political and budgetary pressures had forced DOD to rethink its decentralized mode of operations. In 1983, the Grace Commission recommended consolidation of several systems within DOD, such as procurement, logistics, medical support, and finance and accounting in order to reduce costs, eliminate redundancies, and improve efficiency.[2]

During the 1980's, the federal budget deficits were huge, as shown in figure 1, below. Both Presidents Reagan and Bush were reluctant to raise taxes, but federal entitlements continued to grow. The national debt increased dramatically to $312 trillion, as compared to only $270 billion at the end of World War II.[3] These budgetary factors increased the pressure to reduce the costs of government.

Fiscal Years	Number of Deficits	Current $ Net Deficit*	Current $ Annual Avg	Constant $ (FY 1987) Annual Avg
1940-49	7	$177.6	$17.8	$154.5
1950-59	7	17.4	1.7	7.9
1960-69	8	56.5	5.6	21.0
1970-79	10	365.0	36.5	70.5
1980-89	10	1,566.0	156.6	159.1

*Total deficits minus total surpluses; unified budget basis.

Source: Supplement, Budget of the US Government, Fiscal Year 1993, Part Five (Washington, DC: GPO, 1992), 17-18; *The Economic and Budget Outlook: An Update* (Washington, DC: Congressional Budget Office, 1993), 38.

Figure 1 - U.S. Budget Deficits[4]

In the late 1980s, the Soviet Union and the Warsaw Pact began to disintegrate. In November of 1989, the Berlin Wall came down. President Mikhail Gorbachev was pushing glasnost and withdrawing troops from eastern Europe. By December 1991, the Soviet Union ceased to exist.[5] This disintegration of the U.S.'s most significant military adversary allowed the U.S. to implement plans to downsize its military force and cut its defense budget. These cuts in manpower and dollars added additional emphasis to the need to consolidate and reduce DOD's management costs, including the cost of finance and accounting.

Creation of DFAS and Capitalization of the Finance Centers. In July of 1990, the Secretary of Defense submitted a Defense Management Report (DMR) to the President recommending the restructuring of the Department's management functions. The Secretary also established the Defense Finance and Accounting Service Implementation Group and directed the group to develop detailed implementation plans for the consolidation. The President endorsed the DMR, and the Deputy Secretary of Defense approved the implementation of Defense Management Report Decision 910 on November 30, 1990, directing the consolidation of the finance and accounting centers under a new director and a new organizational structure.[6]

DFAS was activated in January 1991. The first Director of DFAS was Mr. Albert V. Conte. Mr. Conte and his new organization reported directly to the DOD Comptroller rather than the

individual service secretaries, as had the previous multiple directors. The Implementation Plan of 1990 served as the primary strategy document for over one year, as the new organization capitalized (assumed ownership of) the six existing finance centers: the Army's center in Indianapolis; the Navy's two centers in Cleveland and Washington, D.C.; the Air Force's center in Denver; the Marine Corps' center in Kansas City; and the Defense Logistics Agency's center in Columbus, Ohio.[7]

DFAS began developing standardized policies and systems. It began consolidating the separate services' 70 thousand pages of finance regulations into DOD instructions and began comparing the 270 separate automated systems in order to pick the best systems that were to expand and survive as core DOD finance systems. The initial goal was to migrate to only eight appropriated fund systems (military pay, retiree and annuitant pay, civilian pay, debt management, accounting, travel reimbursement, transportation payments, and contract payments).[8]

The first Strategic Plan for Decentralized Operations. In December 1991, based on the success of the first year of operation, DFAS decided to capitalize the decentralized finance and accounting functions of the DOD components.[9] Mr. Conte published his first Strategic Plan on April 6, 1992. This plan provided a vision statement, goals, critical success factors, organizational values, and a concept of future operations. It was very ambitious. It emphasized cost reduction through

consolidation and standardization, improved service to customers, improved opportunities for employees, improved internal controls, and improved use of new technologies.[10]

Encouraging Successes. One of the organization's first successes was implementation of a pre-existing plan to convert the Army onto the Air Force military pay software. Then, in December 1992, the Washington center was closed and its functions were distributed to the other centers. During fiscal year 1993, DFAS capitalized over 16,000 additional employees at over 300 locations throughout the United States and began closing installation/base finance offices.

Finance and accounting, as its name implies, is traditionally split into two components. Finance includes the pay of entitlements such as military pay, civilian pay, travel reimbursement, and payment of vendors and contracts. Accounting involves the proper recording of available funds, obligations and disbursements of those funds, and the reporting to higher headquarters and Congress on the status of those funds.

DFAS has made tremendous progress in consolidating and standardizing finance systems, but less progress with accounting systems. It completed the consolidation of seven retired military pay and annuitant systems into one system operated at two sites; Cleveland for retirees, and Denver for annuitants. It consolidated four debt management systems into one at Denver. It consolidated all centrally managed contracts into one system at

consolidated all centrally managed contracts into one system at Columbus. The Army's huge computer site for military pay, in Indianapolis, was eliminated in 1994 when it began using the Air Force computers in Denver. Marine Corps active and reserve pay and personnel files were consolidated into one data base.

DFAS consolidated 390,000 civilian pay accounts from 350 civilian payroll offices, using 18 systems,[11] into four locations using the Defense Civilian Pay System, and it plans to complete the consolidation of 830,000 accounts in 1998.[12]

DFAS has greatly expanded the use of electronic funds transfers for payroll disbursements, travel reimbursements, and contract payments. This not only eliminates problems and delays caused by the postal system, but improves internal controls and reduces the costs of disbursing operations by eliminating the handling of millions of paper checks each month.

In May 1994, The Deputy Secretary of Defense announced the 25 locations selected for consolidating all operations in the United States. These are called Operating Locations (OPLOCS) and are subordinate to the five *centers*. He subsequently announced that all Pacific operations would be consolidated in Hawaii, the 26th location.[13] Accomplishments during this five year period have been very significant.

Work is on-going. DFAS will convert the Navy to its standard military pay system, Defense Joint Military Pay System (DJMS) in 1996 (active forces) and 1997 (reserve forces). Since

system, has been exempted from consolidation into DJMS, this will complete all current plans for military pay consolidation.

DFAS is still working to meet its specific goals for further consolidation and standardization of accounting systems, improved customer service, improved opportunities for employees, and cost reduction. DFAS has had to revise its goal in many of these areas, as will be discussed in a later section of this paper.

This consolidation, standardization, and re-engineering is difficult work. Even the General Accounting Office has recognized that consolidating and re-engineering finance and accounting functions of this scope, while sustaining ongoing operations, is an extremely difficult and complex task.[14]

Eccles' model vs. DFAS's Implementation.

Eccles' book, Succeeding with Change: Implementing Action-driven Strategies, presents a model for quickly implementing strategic change. The model is prescriptive in nature and is meant to be directly helpful to managers. The thesis of this book is that quick implementation of strategic change can best be accomplished by the application of appropriate managerial power, changes to the organization's structure to emphasize the new strategic goal, and knowledge of fourteen factors that help change occur.

Managerial Power. One of Eccles' main themes is that strategic change can be quickly implemented if sufficient power is concentrated at high levels of the organization and is focused on implementing the change. He explains that there are six contexts of change that relate to the amount of available power for quickly implementing strategic change, as illustrated in the following chart.

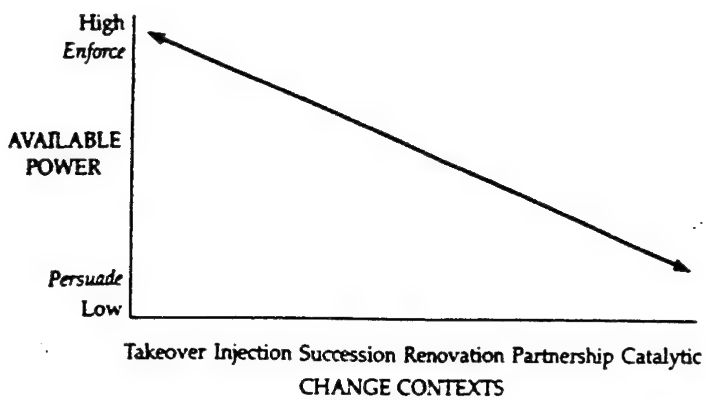

Figure 2 - Eccles' Power Gradient[15]

A *takeover* is the most powerful means of implementing change. It implies new ownership, new management, and a dramatic shift in the organization's culture, goals, and procedures. *Injection* is the second most powerful means of change and involves the replacement of top management by someone from outside the organization. This implies dissatisfaction with the old regime and grants the new management considerable power in implementing changes. *Succession* involves replacing the outgoing manager (often retiring or moving on to another organization)

with someone from within the organization. This implies a less dramatic shift in the organization and thus provides less power toward implementation of change. *Renovation* change implies no change in management, only a change in strategy. *Partnership* change is where the organization is not so much a power structure, but a collegial body of equals who can only be persuaded to change, but not directed. The least powerful change is *catalytic*, where an outside change agent (consultant) is temporarily brought into the organization to facilitate an intervention to implement change. Eccles recognizes that interventions are good for slow, incremental changes, but not for quick strategic changes.[16]

Changing Structure and Culture. Eccles contends that a new organizational structure, along with the new lines of accountability and the new incentives that come with the structure, will quickly influence behavior, which directly affects performance. The performance will quickly affect attitudes and lead to a new organizational culture. This change sequence is shown in the lower portion of figure 2 below. The top portion of the figure illustrates the more conventional process that begins with changing attitudes. Eccles states that empirical evidence supports his theory, and his book cites several organizations that have restructured utilizing his concepts to quickly implement strategic changes.[17]

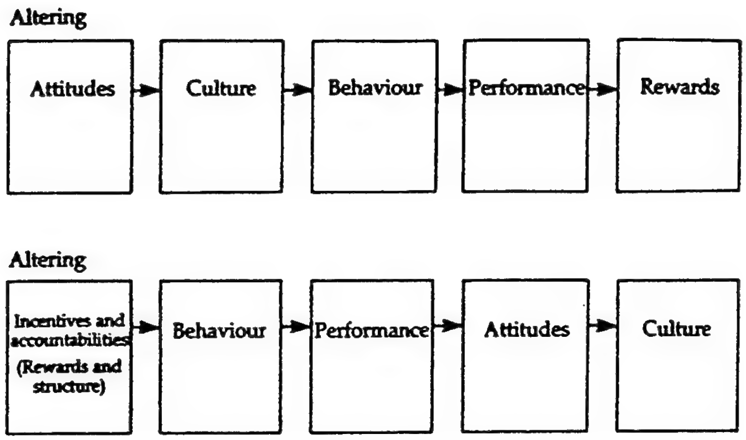

Figure 3 - Eccles' Change Sequence[18]

Eccles' Fourteen Factors. The book lists fourteen factors considered critical to the quick implementation of strategic change. Eccles' titles for these factors and brief explanations of each factor are as follows:

Factor #1 - The Pregnant Executive, a champion or dedicated group to drive the change.

Factor #2 - A Single Goal, a clear focus on where the organization is going, what it is trying to achieve.

Factor #3 - Clarity of Purpose, the clear logic of why the organization is changing.

Factor #4 - The Illusion of Unity, employees who have sufficiently endorsed a detailed plan to accomplish the change. Without a plan, the organization is handicapped in its execution of strategy.

Factor #5 - How Open to Be? Is there enough trust and shared agreement? How much dare we spell out?

Factor #6 - Communication - ensure people talk, listen, and understand.

Factor #7 - Proportionate Responsibility, ensure people are ready and willing to lead and have the authority commensurate with their responsibility.

Factor #8 - The Limitations of Empowerment, empowerment does not reduce top management's responsibility for the performance of the organization. Implementation can not be successfully delegated. Empowerment is of little value in rapid, radical, frame-breaking change; it works better in more stable, evolutionary change.

Factor #9 - Teams and Leaders, ensure it is clear who is responsible for what.

Factor #10 - Structure and Culture, organize sensibly to pursue the goal.

Factor #11 - Creating Winners, reward commitment, success and meritorious failure.

Factor #12 - Fast Change, Initial Acts and Early Successes, show what works, gain momentum and enthusiasm for speedy progress.

Factor #13 - Caring for Casualties, treat the injured with respect and dignity.

Factor #14 - Managing Unintended Consequences, adapt and learn. Cope with contingencies through thorough planning, resilience and flexibility.

Analysis of DFAS Change Process using Eccles' Model. All fourteen factors were undoubtedly influential in the implementation of DFAS's strategic changes. However, a detailed discussion of DFAS's use of all these factors would be quite lengthy and would defuse the significance of the most important factors. Furthermore, documented evidence relative to the use or non-use of all fourteen factors was not available. DFAS documents were the primary source of information for this study. The few interviews conducted as part of this research were used to identify and obtain documentation rather than to directly extract evidence. Therefore, this study will concentrate on the five factors considered most significant and most auditable. A factor was considered significant if analysis of organizational documents indicated that the factor materially contributed to or detracted from the success of the implementation. The five significant factors listed below are discussed in the order of their significance:

(1) Factor #1 - the Pregnant Executive,

(2) Factor #10 - Structure and Culture,

(3) Factor #2 - a Single Goal,

(4) Factor #4 - the Illusion of Unity,

(5) Factor #12 - Fast Change, Initial Acts and Early Successes.

Factor #1 - the Pregnant Executive. In Eccles' model, *takeover* is the most powerful means of implementing change, and

the first director of DFAS benefitted from the DOD takeover of finance and accounting. When the Deputy Secretary of Defense approved the implementation plan on 30 November 1990, a new position was created, the new Director, DFAS. The director was empowered to implement the strategic changes outlined in the Implementation Plan. The act of taking finance and accounting away from the separate service secretaries and placing it under this new director changed ownership, established a new management structure, and illustrated a dramatic expectation for change. The new director was Albert V. Conte. Mr. Conte was previously a Navy employee with extensive experience in budgeting. Although he was not recruited from outside DOD, he was entirely new to the Army and Air Force, and in his new position he reported directly to the DOD Comptroller. This was sufficiently new to give him tremendous power for implementing change.

Mr. Conte further emphasized the impending strategic changes and the *jointness* of his new organization by rotating his immediate subordinates to break-up previous service loyalties. The previous director of the Army Finance and Accounting Center in Indianapolis became the new director of what had previously been the Air Force Accounting and Finance Center in Denver. The previous director of the Defense Logistics Agency Finance Center in Columbus became the new director of the Indianapolis Center, etc. The names of all centers were changed to eliminate references to specific branches of service. Thus, they became the DFAS - Indianapolis Center, the DFAS - Denver Center, etc.

Mr. Conte immediately *capitalized* (assumed ownership of) all employees at the six finance centers, created a DFAS - HQ staff, and began implementing the plan. These immediate changes sent a shock wave through the organization and alerted everyone to additional changes that were to come.

A crisis atmosphere, enhanced by the DOD drawdown and the dramatic cuts to the DOD budget, encouraged compliance with the new plan. Change did occur rapidly, as stated previously in this report.

Mr. Conte was replaced in 1993, after three years, by John P. Springett. Mr. Springett was one of the original members of the DFAS - HQ staff. Therefore, this was a *succession* change. Succession changes, according to Eccles' model, do not empower the new leader as much as a takeover. Therefore, according to the model, Mr. Springett lacked the power that Mr. Conte had been given to implement quick strategic change. Furthermore, the Strategic Plan published by Mr. Springett in September of 1993 was almost identical to the Strategic Plan published by his predecessor. There was no dramatic change in the strategic direction of the organization; and the succession change was appropriate.

The third and current Director of DFAS, Mr. Richard F. Keevey, was a political appointee in 1995 who had the power of an *injection*, and he used that power to implement a quick change in focus or strategy. Like Mr. Springett, before him, Mr. Keevey's Strategic Plan, published on 22 February 1996, reflected no major

changes in the direction of DFAS except to add six goals for financial reform. These new goals were added to the already long list of DFAS goals (as will be discussed later), but he placed great emphasis on cleaning up backlogs in the massive accounting systems and improving the accountability of disbursements.

The significance of the takeover, succession, and injection will be discussed later in relation to other factors and their relative influence on change within DFAS.

Factor #10 - Structure and Culture. This is the second factor addressed (despite being #10 in Eccles' model) because of its significance in the DFAS consolidation. Eccles emphasized that the quickest way to implement strategic change is through changes of the organization's structure. With the creation of DFAS, the new structure was radically different from the previous structures. The finance and accounting organizations no longer reported to the service secretaries. Communication channels were altered. Reporting channels were altered. Incentives and accountabilities were altered. This structural change helped Mr. Conte to quickly implement behavioral and cultural changes in 1991. Although minor structural changes were subsequently made in the DFAS - HQ staff, these changes were not made to enforce any shift in power, or any change in the direction or priorities of the organization.[19] These minor changes were insignificant in implementing strategic change or changing the existing culture developed by Mr. Conte.

Factor #2 - a Single Goal. DFAS's Implementation Plan, dated November 1990, clearly stated its purpose: to "establish a single organization for defense finance and accounting through a consolidation of the finance and accounting centers of the military departments and the defense agencies."[20] Use of this singular, top priority goal fit well into Eccles' model. Under this charter, with an empowered leader and a new organizational structure, change occurred rapidly in 1991.

Losing Focus among Multiple Goals. However, on 6 April 1992, Mr. Conte published a Strategic Plan which greatly expanded from the singular objective of the Implementation Plan. The Strategic Plan provided a mission and vision statement, ten goals, and three values (see Figures 4 - 7).

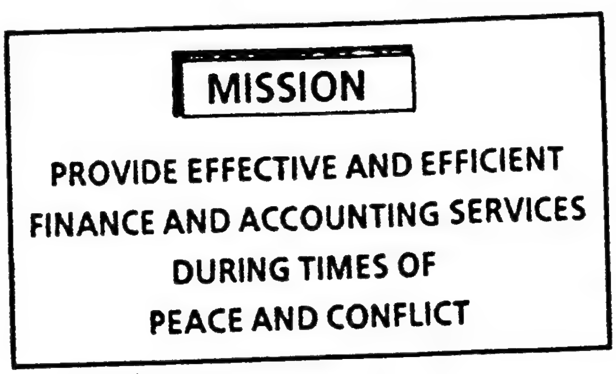

Figure 4 - Conte's Mission[21]

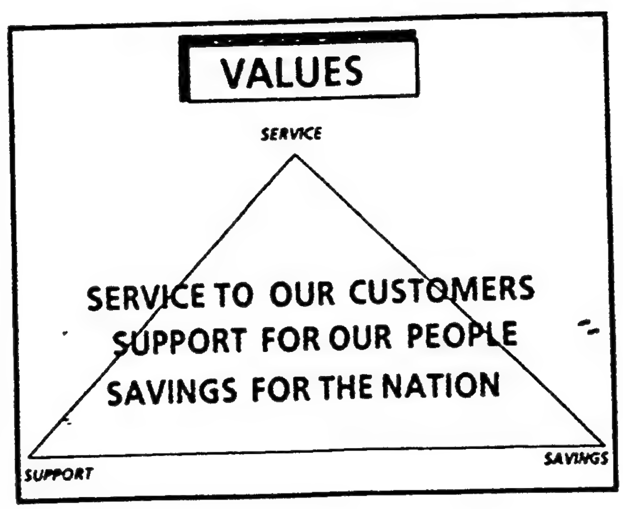

Figure 5 - Conte's Values[22]

VISION

WE ARE COMMITTED

TO PROVIDING OUR CUSTOMERS

REAL-TIME

QUALITY

FINANCIAL MANAGEMENT

INFORMATION,

ACCOUNTING,

AND PAYMENT SERVICES

AT A FRACTION OF CURRENT COST.

Figure 6 - Conte's Vision[23]

GOALS

1. Measure and improve the quality of service provided to *customers*.
2. *Consolidate* all DoD finance and accounting functions at a limited number of centers; face-to-face customer support will be retained at the local level.
3. *Reduce operating costs* by half within 5 years.
4. Provide an environment which maximizes the opportunities for growth and development of all *our personnel*. Staff members affected by organizational change will be treated fairly and with dignity.
5. Provide managers and authorized users with *on-line* access to managerial accounting information down to the work center level.
6. Develop and operate vision-driven, *standardized systems* in each finance and accounting business area within 5 years.
7. Aggressively apply *new methods and technologies* to improve customer service and reduce operating costs.
8. Lead efforts to *integrate* financial services throughout all aspects of DoD's operations.
9. Ensure consistent implementation of finance and accounting *policy* throughout DoD.
10. Achieve national recognition for *excellence* in service and economy of operation.

Figure 7 - Conte's Goals[24]

The ten goals were listed with no emphasis on the priorities of the goals other than their sequence number on the list. The plan also listed three Critical Success Factors which mirrored the three values but expanded on them (Appendix A). The multiple goals, values, and critical factors were not clearly assigned to specific individuals or organizational elements for implementation, and no coordinating instructions were provided.

Many elements of the Strategic Plan could be seen as conflicting with each other. For example, how does the goal of cutting costs by eliminating 50% of the workforce complement or

conflict with improved opportunities for employees? It is unclear how service to customers is enhanced by taking away 300 dedicated, co-located service organizations and moving them off-site to 26 remote operating locations and five centers. It is unclear how replacing 270 automated systems (that were designed for very specific functions and very specific needs) with eight generic systems (designed to meet general needs) will improve customer service.

Subsequent Strategic Plans, in 1993[25] and 1996[26] , listed the same mission, vision, goals, values, and critical success factors with only minor changes to the wording. These Strategic Plans seemed to be intended for audiences external to DFAS.

Mr. Keevey further confused the issue in 1996 by publishing his Strategic Plan with six additional goals for financial management reform (Appendix B) without changing the first ten goals.[27] Only three days after releasing his Strategic Plan, he signed a Director's Statement which established three new *major* goals:

1. Improve quality and timeliness of accounting reports.
2. Reduce costs and improve service to customers.
3. Fifty systems in five years.

Curiously, these same words could have been enumerated to reflect five goals: 1) quality, 2) timeliness, 3) costs, 4) service, and 5) systems. This same memorandum also established a 1996 To-Do-List of 20 key projects (see Appendix C).

Meanwhile, DFAS's current standard orientation briefing still lists only three reasons for creating DFAS: to standardize and streamline operations, to standardize policy and procedures, and to standardize systems.[28]

With such a menagerie of goals, values and projects, it is difficult to envision a "pregnant executive" to champion them all simultaneously. There was no change in structure to emphasize the desired behavior, culture, or direction of the organization. Obviously, DFAS has departed from Eccles' model. Customer service is not singularly championed by the director, but is delegated to a subordinate. Similarly, cost reduction, employee opportunities, internal controls, and standardization of systems are all delegated. None of these goals appeared to benefit from a pregnant executive or structural emphasis.

Returning to Eccles' Model. With prioritizing and grouping of goals, DFAS could come closer to Eccles' model. For example, several existing goals could be consolidated under the over-arching goal of improving the value of customer service, where value is defined as the quality of service as related to cost.

Overarching Goal: Improve the value of customer service.

Subordinate Goals:

- Improve Service Quality
  - -- through improved timeliness and accuracy
  - -- through improved, useful reports
  - -- through improved internal controls

- Reduce costs
  - -- through standardization
  - -- through consolidation
  - -- through application of new technology

The director could emphasize the new goal, by becoming the pregnant executive for value and by implementing structural changes that emphasize both improved service and reduced costs. Under this concept, those responsible for improving the quality of customer service and those responsible for reducing the cost of those services should report to the new champion of value, the director.

It could also be argued that DFAS's single over-arching goal should be cutting costs. Seven of its ten original goals either state reduced costs or should lead to reduced costs; consolidation, standardization, integration, new technologies, and national recognition for economy of operations.[29] Five of the seven benefits of consolidation that they list are aimed at cutting costs.[30] GAO criticized some of DFAS's decisions for focusing too much on short term cost savings, at the expense of customer service.[31] The crisis that prompted DFAS's organization was the downsizing of DOD and a budget crisis.

Or, it could be argued that a single goal and revolutionary change towards that goal is no longer desirable. Following the revolutionary change to the joint organization of DFAS, one could argue that improved customer service, reduced costs, support of employees, and the other goals, values, critical factors, etc.

were not part of the new strategy, but were simply things that did not change from the old strategy. They represent continuity rather than change and thus do not require revolutionary change. DFAS may be content with steady, evolutionary progress towards these goals.

Factor # 4 The Illusion of Unity. Another striking observation is that, unlike the Implementation Plan, the Strategic Plans are not procedural guides for implementing a strategy. Rather, they are visions of a future endstate without any roadmaps as to how to get to that endstate. They do not fix responsibility or create organizations to implement the vision.

Eccles emphasized the necessity for everyone in the organization to buy into a complete, detailed plan for implementing the new strategy. However, before everyone can buy into a detailed plan, the detailed plan must exist.

Conte's Plans. The first director developed several plans. He had a plan for consolidation of the finance centers, the Implementation Plan. He also had a plan for relocating installation finance and accounting operations, called Opportunities for Economic Growth. These two plans, together, formed the plan for reducing staffing and cutting costs. But he lacked a detailed plan for standardizing systems, and his plan for relocating installation operations ran into a very strong adversary.

Under the Opportunity for Economic Growth, which began in March 1992, 112 communities in 12 states competed with economic incentive packages to attract regional finance operating locations (OPLOCS) to their community. DFAS had evaluated these packages, selected winners, and presented them to the Secretary of Defense for his approval. However, in March 1993, the new Secretary of Defense, Les Aspin, disapproved the entire program. He thought it was improper for communities to subsidize federal operations. Two years of effort on this consolidation were cancelled. The political appointment (injection) of the new Secretary of Defense obviously gave him the power to resist this strategic change.

The plan for reducing costs was quite simple. Since the bulk of the costs of finance and accounting are in payroll, the original plan was to reduce the 58,000 employees to 29,000 through centralization and standardization by 1996. Standardization throughout the finance centers would eliminate the duplication of separate policy organizations within each service. Standardization of automated systems would eliminate redundant software maintenance personnel. Centralization and regionalization of operations would produce economies of scale and reduce personnel requirements.

However, debates erupted over who to count among finance and accounting employees. The departments and installation commanders argued that they still needed their dedicated managerial accountants, budget analysts, and customer service

liaison personnel. Many of these people had been included in the original head count. Revised counting procedures lowered the number of finance and accounting personnel subject to DFAS capitalization to approximately 42,000, although that number has not yet been capitalized. Delays in identifying and opening the OPLOCS delayed some of the consolidations, while slow progress in standardizing automated systems also delayed the elimination of redundant systems maintenance personnel. However, DFAS staffing has been reduced from its high of 32,000 to approximately 24,500 today (less than a 25% reduction). Mr. Keevey's current revised goal is 19 - 20,000 employees by the year 2001.[32]

Springett's Revised OPLOC Plan. A revised plan for locating the OPLOCS is being implemented. The 26 operating locations have been named and most of them are at least partially operational. GAO has complained that the criteria for selecting the locations was too heavily weighted towards cost and use of existing, under-utilized government buildings (as opposed to emphasizing customer service or employee opportunities).[33] However, implementation continues.

The Automation Plan. No complete, detailed plan for standardization of automated systems was found. Parts of plans, such as the plan to standardize data elements among the departments, were found. Similarly, plans to use integrated, single source data exchanges were found for various operations:

military personnel and military pay; civilian personnel and civilian pay; procurement and contract payments; and travel orders and travel reimbursements. However, the lack of a complete plan has forced revision of Mr. Conte's original goal of eight systems by the year 2001 to Mr. Keevey's goal of fifty systems by 2006.

Customer Service Plan 1995. Like the Strategic Plans, the Customer Service Plan 1995 lists multiple goals for its various operations, and concentrates on describing current and future endstates. It describes where it is going, use of customer surveys, user forums, and new technologies but provides little detail about how it will get there. It provides no pregnant executive or specific element responsible for customer service, nor does it provide or refer to an implementation plan.

However, the Customer Service Plan does describe several specific initiatives, such as Employee Express, which allows civilian employees to electronically update their payroll account using touch-tone telephones or computers and personal identification numbers (PINs). 10,000 employees on four installations tested this system in 1995, but specific plans for expanding this system have not been published.

Contractors may also use an on-line inquiry system for tracking invoices and checking automated contractor bulletin boards.

The plan lists other initiatives, such as toll free telephone numbers for payroll services, travel reimbursements, and other functions.

Factor #12 - Fast Change, Initial Acts and Early Successes. Eccles points out that success breeds success. It is important to create early successes and then advertise those successes and the rewards that accompany them. Management must show what works in the new organizational culture that they are trying to cultivate. Desired behavior and accomplishments must be reinforced. Then the momentum from early successes must be maintained to reap the synergistic benefits of multiple efforts pulling toward the singular goal.

DFAS achieved early results. Capitalization of the finance centers, conversion of the Army to the Air Force's military pay software, and closure of the Washington Center created momentum.

However, this momentum stalled. The promised DOD regulations that were supposed to standardize and streamline procedures became bogged down in the bureaucratic process. Debates on how to select standard automated systems stagnated. Renegotiations on which employees were to be capitalized into DFAS and which were to remain (or revert back to) employees of the separate departments undermined the initial decisiveness of early decisions. The ultimate blow, however, to the initial momentum was Les Aspin's cancellation of the Opportunities for Economic Growth.

Conte's plan to open OPLOCS in those communities which successfully competed was a key component of the plans for consolidation, standardization, and cost reduction. This set-back challenged the new organization's ability to manage unintended consequences and adapt to change (factor #14 of Eccles' model).

Although stalled temporarily, DFAS seems to have recovered some of the earlier momentum. The DOD regulations have been published, OPLOCS are now open and expanding, and most of the major pay systems have been or are currently being standardized. Mr. Keevey's relentless emphasis on cleaning up backlogs in the accounting systems has greatly improved the quality of reports and has simplified operations, since the backlogs are no longer an obstacle to routine processing.

These recent accomplishments and the regaining of momentum have not been the result of dramatic changes in strategy, but of the focused emphasis and perseverance of current leaders. These efforts have placed DFAS in a position to consolidate the gains of the last five years and to look to the future.

CONCLUSIONS.

DFAS's implementation of strategic change over the last five years has been impressive. DFAS has restructured, closed nearly 300 offices, re-engineered, and cut costs while continuing operations. Some of the changes were implemented quickly, and

others were not. Those that were implemented quickly did resemble Eccles' model in several of the factors that were studied. Those changes that came about more slowly, can be related to deviations from Eccles' model.

The initial takeover and restructuring followed closely to Eccles' model. The powerful new executive, new structure, and unity of effort toward the single goal of capitalizing the finance centers quickly changed the behavior and the culture of the organization. The Implementation Plan gave employees and senior managers a plan that they could buy into to coordinate their efforts. This led to revolutionary change and the quick consolidation of the Army, Navy, Air Force, and Marine Corps finance centers into DFAS. The rapid consolidations created a momentum for change and set the stage for significant savings and standardization. Policies were re-written and standardized, several major systems were standardized.

However, as DFAS shifted its focus from capitalizing the centers to capitalizing the decentralized operations, it lost its singular focus, departed from Eccles' model, and lost momentum. DFAS lacked the pregnant executive, a singular goal and a detailed plan under which employees and managers could unite. The Strategic Plans of 1992, 1993, and 1996 appear to be written for external consumption rather than as a detailed plan for unity of effort internal to the organization.

Secretary Aspin's 1993 cancellation of Mr. Conte's plan for selecting sites for the OPLOCs, the Opportunities for Economic

Growth, stole additional momentum. The changes bogged down and became evolutionary rather than revolutionary.

Recently, DFAS has regained some of its momentum and has completed most of its initial plans without following the Eccles' model. Mr. Keevey has become the pregnant executive of financial reform. He did emphasize this goal in his Director's Statement, in his personal actions, in plans to reduce unmatched disbursements and other accounting backlogs, and in reward systems. However, he did not consistently emphasize it through other media such as his Strategic Plan or the DFAS orientation briefings. Nor did he restructure the organization, change reporting channels or otherwise emphasize this change in strategy or emphasis. Despite the non-use of many of Eccles' fourteen factors, he did achieve quick progress in financial reform.

DFAS's current pace of change is not bad. Steady continuous improvement is less stressful on the organization and its employees than revolutionary change. If DFAS management is content with the current pace of change, the use of Eccles' model may be undesirable.

However, Conte has shown that use of the model can lead to quick implementation of strategic change.

RECOMMENDATIONS.

DFAS management must determine if evolutionary or revolutionary change is needed in pursuing its goals and

objectives. If faster change is desirable, standardization, customer service, and employee opportunities are areas where DFAS's work is ongoing and are excellent candidates for emphasis in accordance with Eccles' model. However, the model requires emphasis of one goal at a time.

If DFAS wishes to use the model to accelerate change, it must formulate this singular goal. With much of the capitalization and consolidation completed, it is recommended that the next DFAS goal may be to improve the value of its service to customers. The director should become the pregnant executive for improved value. If additional power is desirable, postponing this change until the next injection of a new political appointee, or a career employee, could punctuate the impending change. The director should restructure the organization to elevate the managers responsible for improving customer services (which could include financial reform) and reducing costs. Perhaps the cost cutters could be the comptroller and the head of automation and new technologies. These few executives should report directly to the pregnant executive, and all other managers should report through them. This would change the reporting channels within the organization and the reward structure to emphasize improving value.

Other goals, such as improved opportunities for employees could co-exist, but with a lesser priority than the goal for quick strategic change. Like most of the goals under the Strategic Plans, the continuing goals would represent continuity

rather than change. All forms of communication, strategic plans, directors statements, implementation plans, orientation briefings, etc. should emphasize the relative priority of the new strategic goal, and the lesser continuing goals.

DFAS would also require a new implementation planning team and a new implementation plan for internal direction and coordination of how to improve value. An implementation plan would allow subordinate managers and employees to buy-in. Such a plan would provide the unity of effort needed for quick implementation of change.

According to Eccles' model, this combination of an energized, focused leader, a new structure, a single goal, and a detailed plan, along with knowledge of the rest of the fourteen factors, will allow quick implementation of strategic change.

End Notes

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3. LTC Mark Risi, "The Impact of the Budget Deficit on the Military," Course I Reading Requirements, Volume II, U.S. Army War College - 1996, 364.

4. Dr. Dennis S. Ippolito, Blunting the Sword: Budget Policy and the Future of Defense (Washington, D.C.: National Defense University, 1994), 138.

5. Colin Powell, with Joseph E. Persico, My American Journey (Random House, New York), 453, 546, and 604.

6. DFAS Implementation Plan, November 1990, 14.

7. Ibid., 14.

8. Strategic Plan, 1992, 20-25. Also see Madison interview, chart 35.

9. DFAS Customer Service Plan 1995, 2.

10. DFAS Strategic Plan, 1992, 7.

11. DFAS Customer Service Plan 1995, 9.

12. Maddison interview, chart 38.

13. DFAS Customer Service Plan, 2.

14. General Accounting Office Report, "DOD Infrastructure: DOD's Finance and Accounting Structure is not well Justified," September 1995, 1.

15. Tony Eccles, Succeeding with Change: Implementing Action-driven Strategies, (England: McGraw-Hill, 1994), 88.

16. Ibid., 192.

17. Ibid., 4.

18. Ibid., 213.

19. Maddison interview.

20. DFAS Implementation Plan, 1.

21. Strategic Plan, 1992, 3.

22. Ibid.

23. Ibid., 5.

24. Ibid., 7.

25. Strategic Plan, 1993.

26. Strategic Plan, 1996.

27. Ibid., 7.

23. Maddison interview, chart 6.

29. Strategic Plan, 1996, 8.

30. Maddison interview, chart 14.

31. GAO Report, 4.

32. BG Roger Scearce, message.

33. GAO Report, 10, 11, & 12.

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CRITICAL SUCCESS FACTORS

- **Service to our Customers**
  - Customer Satisfaction
  - Compliance with Congressional/OSD Direction
  - Commitment to Organizational Excellence
  - Advice, Guidance, and Recommendations
  - Internal Controls
  - Team Work
  - Communication
- **Support for our People**
  - Employee Satisfaction
  - Cost Effective Training
  - Safe and Healthy Work Place
  - Work Related Tools
  - Reward/Recognition Program
  - Professionalism
  - Communication
- **Savings for the Nation**
  - Unit Cost Reductions
  - Consolidation of Policy, Systems, and Operations
  - Standardization of Policy, Systems, and Operations
  - New Methods and Technology
  - System Improvements
  - Communication

Source: DFAS Stragetic Plan, 1992, pg 6.

DEFENSE FINANCE AND ACCOUNTING SERVICE

DIRECTOR'S STATEMENT
February 27, 1996

I have established three major goals:

1. Improve quality and timeliness of accounting reports.

2. Reduce costs and improve service to customers.

3. Fifty systems in five years.

To achieve these goals, I have established a 1996 To Do List of 20 key projects; namely:

TO DO FOR 1996

1. Implement approved accounting system strategy within current schedule, including the standard BACC architecture and the key accounting requirements.

2. Improve quality, usability, and timeliness of our monthly accounting reports.

3. Produce DoD-wide CFO statements for FY 1996 and except for plant, property, equipment, inventory, and contingent liabilities, have no significant audit findings.

4. Implement successful FY96 consolidation schedule.

5. Reduce problem disbursements by 50%, and reduce by 90% accounts with negative balances by December 30, 1996.

6. Make all vendor payments in less than 30 days, and reduce contract payment backlog to 3% or less.

7. Reduce contract overpayment to less than .015% of total disbursements by December 30, 1996.

8. Strengthen Internal Controls and expand Project Mongoose.

9. Expand the use of the IMPAC Card.

10. Integrate EC/EDI and EFT capability in all major systems by December 30, 1996 and aggressively sign up contractors and vendors.

11. Achieve Milestone 2 for the Defense Procurement Payment System, and determine feasibility of no more than two agency-wide disbursing systems.

12. Maintain implementation schedule for the single Civilian Payroll System (DCPS) and refocus on completion of single Military Payroll System (DJMS) for Army, Navy, and Air Force.

13. Implement Defense Transportation Payment System (DTRS).

14. Maximize technology, including deploying the electronic document management system at Omaha, Columbus, and Charleston, and complete the Business Reengineering review at Norfolk.

15. Achieve Level 2 of the capability maturity module for the Financial Systems Organization.

16. Update strategic and tactical business plans and use them as the key management tools in the organization.

17. Improve professionalism of employees by developing and implementing a cost effective training program.

18. Continue on schedule the A-76 studies.

19. Update Information Security policy by December 30, 1996.

20. Support implementation of the travel process improvement project.

Richard F. Keevey
Director